

Jessica Te Whaiti-Finch

From: Melanie Craxton [TSY] <Melanie.Craxton@treasury.govt.nz>
Sent: Thursday, 25 May 2023 1:30 pm
To: Luke Hilton; Steven Cox; Scott Gulliver; Tim Denne; Heather Martindale; Lachy Stark [TSY]
Cc: Emma Kelly; Nicky Lynch [TSY]
Subject: RE: CONFIDENTIAL 202200568-Interagency consultation wording check
Attachments: 202200568 Extract from report re interagency consultation_Tsy.docx; Interagency Meeting - Key Points TD SC_Tsy MC.docx

Kia ora Luke,

Thanks again for the chat earlier – I appreciated being able to touch base with you.

As discussed our key concerns were around the precise language regarding discussion of the NDC liability – as noted on the phone and in our interagency meeting previously, we provided advice on this in 2021. While my understanding is that this advice has not been proactively released (given I was uncertain whether it had fallen under one of the bigger OIA's around the NDC), I have **recommended specific language – both in the interagency minute notes + the report** that aligns with our advice. Given it's all a bit technical I have erred on the side of technical correctness.

Relatedly, also for the purposes of technical correctness, I have suggested some language around the paragraph on the 'shadow value', including the Applicant's definition of it + their use of the Treasury's shadow values (which have an explicit purpose for being used by central agencies in the context of CBAX, rather than being relied upon for any other purpose). More generally with respect to the 'economic benefit', in particular with respect to claims of reducing the country's net emissions, and the use of any form of emissions value to estimate this, there are two components of this equation: (1) the amount of actual and additional net emissions reductions and (2) the value of those reductions. As previously noted, we do not consider the Treasury's shadow values to be appropriate to apply in this context (in particular given the economic benefit claim seems to explicitly suggest the benefit is in reducing the cost of potential *overseas mitigation* that might have to be purchased). However the crux of the issue, I would imagine, is the first element – what net emissions are actually driven by the Applicant's proposed activities. As was discussed, is reflected in the meeting summary and the report nicely makes clear at the beginning, it is uncertain whether the Applicant's activity will have any influence on net emissions at all, in particular if they intend to register the forest in the ETS and on-sell the credits.

I find the way that we thought about whether or not the NDC might pass the test of being included as a liability in the government's books also to be helpful – not only just that the 'meeting a given NDC level' (or even what a level should or shouldn't be) is not covered by a legal obligation under the Paris Agreement (despite it being a legally binding international treaty), but also that Government's have the ability not only to change NDCs, but also with respect to how they might be met (and the deep uncertainties that exist around all of this).

The attached documents are marked up + commented versions of both the report extract and the interagency meeting notes (where I have also tried to refine things for technical correctness / add some additional insight).

Happy to discuss if any of this is unclear – I appreciate I have taken some liberties in some of my recommended wording. Naturally our intent is not to speak for LINZ, but was rather to provide ways of articulating NDC liability and shadow price things as technically correct + a small attempt to be helpful at trying to pull some of what we saw as the key arguments together (in light of these things).

Nga mihi nui
Melanie

Dr. Melanie Craxton | Principal Advisor – Climate Change | Te Tai Ōhanga – The Treasury

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From: Luke Hilton <LHilton@linz.govt.nz>

Sent: Thursday, 18 May 2023 2:54 pm

To: Steven Cox <Steven.Cox4@mpi.govt.nz>; Scott Gulliver <Scott.Gulliver@mfe.govt.nz>; Tim Denne <Tim.Denne@mfe.govt.nz>; Heather Martindale <Heather.Martindale@mfe.govt.nz>; Lachy Stark [TSY] <Lachy.Stark@treasury.govt.nz>; Melanie Craxton [TSY] <Melanie.Craxton@treasury.govt.nz>

Cc: Emma Kelly <EKelly@linz.govt.nz>

Subject: CONFIDENTIAL 202200568-Interagency consultation wording check

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Kia ora kapa

Thanks again for your time during our consultation with you, especially during the interagency meeting (see *attached*) on 24 February 2023.

We're finalising our assessment report for submission to Ministers. As promised, we'd like to check the wording in our report (see also *attached*) regarding our consultation with you. We've referred to the consultation in the part of the report dealing with one of the applicant's economic benefit claims (savings from reduction in farm emissions and carbon sequestration). Please review the wording and let me know what you think by **close of business on Thursday 25 May 2023**. We'll be checking in with other teams in MPI and MfE on our use of other parts of our consultation on different claims.

We also referred to consultation with you in the part of the report listing the agencies we consulted with. The abbreviations referred to below are Outdoors Access Commission (OAC), Department of Conservation (DOC), and Dunedin City Council (DCC).

No third-party submissions from the public were received in relation to this application. In undertaking our assessment, we consulted with eight government agencies: MPI, MfE, Treasury, OAC, DOC, Heritage NZ, QEII, and DCC.

We consider that it's highly likely that the assessment report will be released under the [Official Information Act 1982](#). Please let us know if you'd like us to email you when we receive such a request.

If you've got any queries, please feel free to contact me.

Ngā mihi nui,

Luke Hilton ([he/him](#))

Senior Solicitor | Applications

Overseas Investment, Regulatory Practice & Delivery

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From: Steven Cox <Steven.Cox4@mpi.govt.nz>

Sent: Friday, March 3, 2023 3:21 PM

To: Scott Gulliver <Scott.Gulliver@mfe.govt.nz>; Tim Denne <Tim.Denne@mfe.govt.nz>; Emma Kelly <EKelly@linz.govt.nz>; Heather Martindale <Heather.Martindale@mfe.govt.nz>

Cc: Claire le Grice <CleGrice@linz.govt.nz>; Andrew Wells <AWells@linz.govt.nz>; Luke Hilton

<LHilton@linz.govt.nz>

Subject: RE: [IN-CONFIDENCE]RE: Interagency Meeting - Savings from Carbon Emission Reductions

Hi,

A few comments in the attached on me.

Apologies for lateness, needed to wrangle a plumber yesterday

I do not have comments on the proposed text below.

Thanks

Steven Cox

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[SEEMAIL]

From: Scott Gulliver <Scott.Gulliver@mfe.govt.nz>

Sent: Thursday, 2 March 2023 9:44 AM

To: Tim Denne <Tim.Denne@mfe.govt.nz>; Emma Kelly <EKelly@linz.govt.nz>; Steven Cox

<Steven.Cox4@mpi.govt.nz>; Heather Martindale <Heather.Martindale@mfe.govt.nz>

Cc: Claire le Grice <CleGrice@linz.govt.nz>; Andrew Wells <AWells@linz.govt.nz>; Luke Hilton

<LHilton@linz.govt.nz>

Subject: RE: [IN-CONFIDENCE]RE: Interagency Meeting - Savings from Carbon Emission Reductions

Hi Emma

Please take Tim's comments as the full set of comments from MfE. Heather and I have nothing further to add.

Scott

From: Tim Denne <Tim.Denne@mfe.govt.nz>

Sent: Tuesday, February 28, 2023 8:44 AM

To: Emma Kelly <EKelly@linz.govt.nz>; Steven Cox [EXTERNAL] (MPI) <steven.cox4@mpi.govt.nz>; Heather

Martindale <Heather.Martindale@mfe.govt.nz>; Scott Gulliver <Scott.Gulliver@mfe.govt.nz>

Cc: Claire le Grice <CleGrice@linz.govt.nz>; Andrew Wells <AWells@linz.govt.nz>; Luke Hilton

<LHilton@linz.govt.nz>

Subject: [IN-CONFIDENCE]RE: Interagency Meeting - Savings from Carbon Emission Reductions

Hi Emma

Thanks for this and it looks like a good reflection of the discussion. I have made some suggested amendments below for clarity (and a small addition to the meeting note attached) which hopefully don't reduce the strength of your comments.

Tim

Tim Denne

Principal Economist | Kaimātai Ōhanga Matua

Climate Change

Ministry for the Environment | Manatū Mō Te Taiao

021 346 556 | tim.denne@mfe.govt.nz | environment.govt.nz

From: Emma Kelly <EKelly@linz.govt.nz>

Sent: Monday, February 27, 2023 4:26 PM

To: Steven Cox [EXTERNAL] (MPI) <steven.cox4@mpi.govt.nz>; Tim Denne <Tim.Denne@mfe.govt.nz>; Heather

Martindale <Heather.Martindale@mfe.govt.nz>; Scott Gulliver <Scott.Gulliver@mfe.govt.nz>
Cc: Claire le Grice <CleGrice@linz.govt.nz>; Andrew Wells <AWells@linz.govt.nz>; Luke Hilton <LHilton@linz.govt.nz>

Subject: Interagency Meeting - Savings from Carbon Emission Reductions

Kia ora,

Thank you again for meeting with us on Friday to discuss carbon emissions claims under the benefit to New Zealand test. The key points of discussion from the meeting are attached for your approval. We don't intend to release these notes, however they will likely be used in our future assessments so please let us know if you want to make any amendments or corrections.

As discussed, we are writing a letter to our applicant to outline some of our comments on the claims so far. We have copied the carbon claims section of our letter relating to the second application below. Once the wording is settled, we intend to amend it to draft a similar letter relating to the first application. Our draft wording is as follows:

1. **Applicant's Claim:** The Applicant is claiming an economic benefit to New Zealand of approximately \$23,706,422 by reducing the Government's need to purchase offshore carbon units to meet its Nationally Determined Contribution (**NDC**) under the Paris Agreement.^[1] The Applicant claims it will do this by both reducing the existing farming emissions and increasing carbon sequestration on the Land through afforestation.

Our Comments:

We are not satisfied that the investment will result in the specific economic benefits claimed in relation to carbon emissions. In particular, we note there is not a clear causal connection between the afforestation activities on the Land and their actual effect on both gross emissions and the NDC. Our reasons for this include (but are not limited to) the following:

- a) The Government uses the Emissions Trading Scheme (**ETS**) as one of the tools to meet its NDC under the Paris Agreement. When the Applicant registers eligible land in the ETS, it will receive New Zealand Units (**NZUs**) in proportion to its carbon sequestration activities. The NZUs issued to the Applicant can be on-sold to emitters **allowing them to maintain higher emissions than they would otherwise**. As a result of this on-sale of NZUs, total **net** carbon emissions (**emissions minus removals**) in New Zealand would not necessarily decrease, in which case the effect on the NDC would be neutral.
- b) Gross emissions may not reduce in connection with the cessation of farming activities on the Land, as **it's likely we cannot be certain** that the grazing activity will **not** be moved elsewhere (**particularly for a finishing farm**); and the emissions from farming these animals will be relocated to another property. It is therefore unlikely that there will be a reduction in the NDC caused by the end of farming on the Land.
- c) The NDC is not a strict fiscal liability on the Government's accounts. There is a commitment to meet the NDC however it is not a legislated debt so we cannot be certain that it will eventually be met through the purchase of offshore mitigation.
- d) The actual economic cost of meeting the NDC through the purchase of offshore mitigation is also uncertain as the price of carbon units fluctuate.

If you have any suggested amendments or corrections to either the meeting notes or the carbon claims comments above can you please let us know by **Thursday 2 March 2023**.

Kind regards,
Emma

Emma Kelly ([she/her](#))

Senior Solicitor

Overseas Investment Office

Regulatory Practice and Delivery Group



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From: Luke Hilton <LHilton@linz.govt.nz>

Sent: Thursday, February 23, 2023 2:36 PM

To: Steven Cox <Steven.Cox4@mpi.govt.nz>; Tim Denne <Tim.Denne@mfe.govt.nz>; Heather Martindale <Heather.Martindale@mfe.govt.nz>; melanie.craxton@treasury.govt.nz; scott.gulliver@mfe.govt.nz

Cc: Claire le Grice <CleGrice@linz.govt.nz>; Andrew Wells <AWells@linz.govt.nz>; Emma Kelly <EKelly@linz.govt.nz>

Subject: 202200568 Agenda - Interagency Meeting - Savings from Carbon Emission Reductions

Tēnā koutou

Please see below for the proposed agenda.

1. Introductions (**2 mins**)
2. Outline of proposed investment + general benefit to NZ test (**8 mins**)
3. LINZ's understanding of carbon claims in investment plan (**18 mins**)
4. Key discussion points re ETS + NZUs + NDC (**30 mins**)
 - A. Is it revenue neutral; or is it a fiscal cost?
 - B. Is a new forest a benefit?
 - C. How do we recognise the deficit between our NDC (Nationally Determined Contribution) and international targets?
5. Next steps + close meeting (**2 mins**)

Looking forward to the meeting tomorrow.

Ngā mihi nui

Luke Hilton ([he/him](#))

Senior Solicitor | Applications

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^[1] Investment Plan, paragraphs 8.2 to 8.7.